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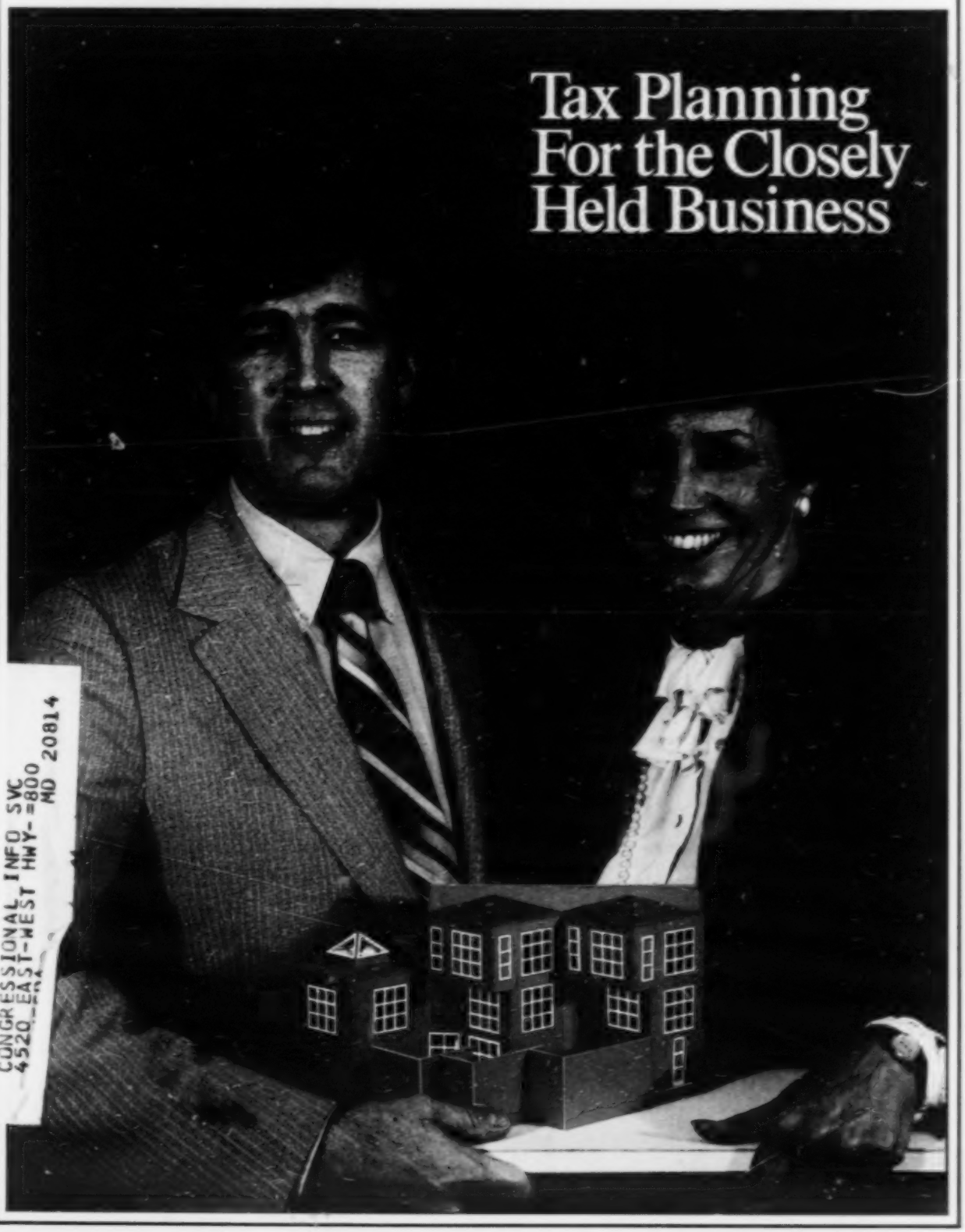

Tax Planning For the Closely Held Business

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Owners of closely held businesses and limited partnership interests should be aware of their tax advantages. Photo by Bill Coker; building model from the school of architecture at Georgia Tech.

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Relationship Management For Estate Planning Customers

Will they adopt the new financial planning strategy?

The financial services industry is currently operating in an environment that is affected by deregulation, intense competition, increased complexity, and heightened consumer sophistication. The dominant retail financial strategy that has emerged in the 1980s is consumer financial relationship management. To achieve integrated, multiple-service relationships, financial service providers would ideally offer a wide variety of products and services that not only establish an initial account with a customer, but also encourage a total relationship, including checking, savings, investing, insuring, and financial planning.

In order to sell, deliver, and service these relationships at a profit, financial service providers will have to segment their markets, address the needs of those markets, upgrade their sales staffs, streamline their delivery systems, and price their services realistically.

Many financial service providers are trying to build profitable relationships by turning their trust divisions into private, or personal, banking departments. The goal of these organizations is to sell the "trust" customer a full package of services that will meet as nearly as possible the total needs of the customer while creating a profitable overall relationship for the provider.

Synergistics Research Corporation in Atlanta, Georgia, conducted a nationwide survey in August 1983 with 500 consumers who have household incomes or liquid financial assets (excluding the primary home) of $15,000 or more. A comparison of consumers who currently use estate planning services and those who do not was undertaken to determine whether or not current users are key prospects for a relationship management program. Topics discussed in this article include:

- Demographics
- Financial services usage
- Personal sources of information and advice
- Reaction to the single provider concept

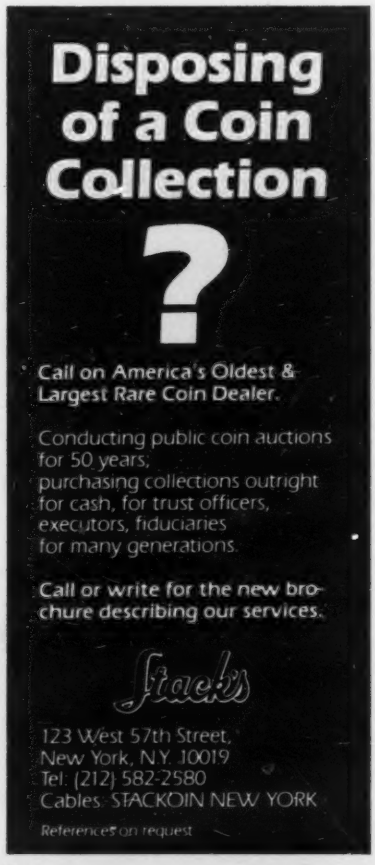
Demographics

Marketing to the affluent is one of the most often-cited segmentation strategies of financial services providers. Many providers, in fact, see relationship management as an approach to improve their affluent market position. In general, the affluent market is still described as the 20 percent of customers who account for 80 percent of deposits.

There is no doubt that estate planning users are an attractive market segment from a demographic standpoint. Almost one-third of all users in this Synergistics' sample have household incomes in excess of $40,000 a year and about the same proportion have liquid assets exceeding $50,000. In comparison, fewer than one in five nonusers of estate planning have this level of income or assets. Not surprisingly, these nonusers are quite a bit younger than are the users. Forty-four percent of nonusers are under the age of 35, compared to only 28 percent of estate planning users.

Financial Services Usage

Success or failure in relationship management will depend on each play-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er's ability to integrate multiple services. This represents a new approach for financial service institutions, which have historically marketed individual products with very little effort at product integration.

Data in Table I shows that estate planning users are sophisticated in terms of availing themselves of other financial services. The bulk of them (70 percent) have short-term investments and over half hold common stocks or mutual funds. Almost two-thirds use a tax preparation service and four in ten use financial planning or counseling services. These data support the hypothesis that estate planning users are an important market segment to pursue for relationship management.

The Single Provider Concept

In the 1980s, financial service providers are likely to develop broader product lines and stress sales of multiple services to clients in response to intense competitive pressures. As noted earlier, many providers are hoping to attract more affluent customers' business through relationship management programs. Other providers are turning their trust areas into personal banking departments in an effort to sell these customers additional services.

However, the idea of using a single provider for all financial services does *not* meet with any more approval from estate planning users than from nonusers. When asked whether the single provider concept represents an improvement, half the estate planning users say it is "very much" or "somewhat" of an improvement, versus 61 percent of nonusers. Only 20 percent of either segment feels this would be "very much" of an improvement.

In the 1980's financial service providers are likely to develop broader product lines and stress sales of multiple services to clients in response to intense competitive pressures

Personal Sources of Information

Unchecked by banking regulations and able to diversify through acquisitions, nonbanks are able to offer broad product lines. A number of nonbanks, such as insurance companies and bro-

TABLE I
Financial Services Usage

	Estate Planning	
	Users (%)	Nonusers (%)
Checking account	100	94
Passbook or regular savings account	92	84
Short-term investments	70	47
Common stocks/mutual fund	55	32
Auto loans	52	41
Credit card	80	75
Life insurance	91	84
Financial planning/counseling	40	16
Tax preparation service	65	52

TABLE II
Personal Sources of Information and Advice

	Estate Planning	
	Users (%)	Nonusers (%)
Bankers	50	50
Accountants	46	32
Attorneys	42	21
Friends and relatives	42	60
Stockbrokers	32	16
Tax preparation firms	28	28
Life insurance agents	28	27
Independent financial planners or counselors	19	19

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kerage firms, have traditionally supported their services through advice and information. Accountants and attorneys have also traditionally provided their clients with financial information and advice. The net result of these additional players is that consumer financial relationships are now highly fragmented — especially within the upscale or affluent segment. Hence, while estate planning users *are* attractive from a demographic and financial services usage standpoint, survey data suggest that it may be difficult to encourage a consolidated relationship among members of this market segment.

Many estate planning users already rely on an array of highly specialized professional providers for their financial information and advice. For example, they are twice as likely as nonusers to utilize stockbrokers and/or attorneys. Reliance on accountants is also greater among estate planning users than nonusers. Less affluent consumers, most of whom do not use estate planning, look to nonprofessional sources — such as friends and relatives — for financial information and advice.

Survey respondents were also asked whether or not they would do more business with a financial services provider that offered professional advice or planning on *all* services. Again, nonusers of estate planning found this to be more attractive than did users. Almost three-quarters (74 percent) of nonusers agreed with this statement, compared to 58 percent of estate planning users.

Estate planning users are unlikely to change current financial relationships to get more advice. It will be difficult for private banking departments to stress estate planning as a means to expand consumer financial relationships

Based on these data, Synergistics believes that it will take more for private banking to succeed than simply linking together a variety of products through information and advice. Estate planning users are undoubtedly an attractive market segment in terms of their income, assets, and financial services usage. However, many of them already have investment and advisory relationships that are dispersed across a wide variety of financial specialists. Although half of the estate planning users do feel that the single provider concept represents at least *some* improvement over the current situation, most feel that it is not a *significant* improvement.

A respectable proportion of estate planning users do say they might do more business with a provider that offers counseling on all their services. However, many of them already use a variety of specialists for financial information and advice. Therefore, it seems unlikely that they would move or consolidate their current financial relationships just to get more advice. In summary, it will be difficult for private banking departments to emphasize estate planning as a means to expand consumer financial relationships.

However, significant opportunities for relationship management do exist among other target market segments. For example, the emerging affluent (household incomes of $35,000 to $49,999) is a market segment that has long been overlooked by many financial services providers. Consumers in this segment have not yet fragmented their financial relationships to the same extent as affluent consumers and are quite receptive to the single provider concept. Because they are somewhat younger than affluent consumers, emerging affluents currently do not have as attractive an asset base as do established affluents. Financial services providers with an eye to the future would do well, however, to acknowledge the future growth potential of this market. □

Debbie Stern is Vice President of Synergistics Research Corporation in Atlanta. She graduated from the University of Texas and holds an MBA in Marketing from Georgia State University. She is the former general manager of research for Bell South Mobility, and the former research director at Response Analysis Corporation.

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